

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2008

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

Authority Board
Marshall Area Fire Fighters Ambulance Authority
Marshall, Michigan

We have audited the accompanying financial statements of the governmental activity and major fund of the Marshall Area Fire Fighters Ambulance Authority, as of and for the year ended June 30, 2008, which collectively comprises the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Marshall Area Fire Fighters Ambulance Authority management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and major fund of the Marshall Area Fire Fighters Ambulance Authority, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2008 on our consideration of Marshall Area Fire Fighters Ambulance Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis, budgetary comparison, and retirement information on pages iii through viii and Pages 15 and 16, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Olson, Marsh, Condon & Co., P.C.

Certified Public Accountants

Hillsdale, Michigan
August 6, 2008



Marshall Area Fire Fighters Ambulance Authority

Management's Discussion and Analysis

Year Ended June 30, 2008

The following discussion and analysis of the financial performance for the Marshall Area Fire Fighters Ambulance Authority (the "Authority") provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Authority's financial statements.

General Information

The Marshall Area Fire Fighters Ambulance Authority was established under Act 57 of Public Acts of 1988, on April 15, 2004, as a municipal authority to provide ambulance service to the Townships of Burlington, Clarendon, Convis, Eckford, Fredonia, Lee, Marengo, Marshall, Tekonsha, and the City of Marshall.

The Authority is governed by a 14 member Board of Directors comprised of members representing each municipality, three members from the Marshall Firefighters Association and one member from Oaklawn Hospital - Marshall, Michigan.

The Authority's first official fiscal year began on July 1, 2004. During the period between July 1, 2004 and December 31, 2004, the Authority was preparing to take over the operations of the Marshall Fire Fighters Ambulance Service, Inc. The Authority began providing ambulance services effective January 1, 2005.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2008:

- The Authority was authorized by public vote on August 3, 2004 to levy 0.50 mills for a period of ten years. This levy generated \$347,752 in property tax revenue in fiscal year ended June 30, 2008. An additional \$10,495 of property taxes captured by the Marshall Downtown Development Authority & Local Development Finance Authority was donated back to the Ambulance Authority.
- The Authority launched a website in 2007. The cost to develop the website was \$4,650. The website provides the community with a variety of information about the Authority, including Board of Directors meeting minutes.
- The Authority replaced obsolete computer equipment at a cost of \$20,207.
- The Authority purchased 800 MHz radios at a cost of \$9,084. This purchase restored interagency operability as several agencies (police and fire departments) had acquired 800 MHz radio systems.

Marshall Area Fire Fighters Ambulance Authority

Managements Discussion and Analysis

Year Ended June 30, 2008

Financial Highlights (concluded)

- The Authority purchased three (3) powered ambulance cots in the amount of \$29,733. This purchase is expected to reduce lifting injury(s) associated with patient care.
- Fuel cost increased by \$15,735, or 46.1%, due to the rising cost of crude oil per barrel.
- Vehicle maintenance increased by \$22,543 or 104% due to the aging ambulance fleet.
- The Authority responded to approximately 3,355 dispatches which is an increase of approximately 284 over prior year.
- The Authority initiated a project to provide a means for the community residents to record their important medical information. The project was successful and the Authority and its partners distributed 5,000 File of Life holders and information cards to the residents. The cost to produce the documents and holders was \$4,900. The Authority's actual contribution to the project was \$500. The balance of the cost was covered by specific donations received from other local agencies and business owners in the Authority area.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Marshall Area Fire Fighters Ambulance Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business, and therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the Authority's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The *statement of activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick and vacation leave). The government-wide financial statements can be found on pages 1 and 2 of this report.

Marshall Area Fire Fighters Ambulance Authority

Managements Discussion and Analysis

Year Ended June 30, 2008

Overview of the Financial Statements (concluded)

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Marshall Area Fire Fighters Ambulance Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Authority's operations in more detail than the government-wide financial statements. These statements present a shorter-term view and tell how taxpayer resources were spent during the year.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements tell how general government services were financed in the short-term as well as what remains for future spending. Such information may be useful in evaluation of a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority adopts an annual appropriated budget for its fund activity. A budgetary comparison schedule has been provided for the Authority's fund activity.

The basic governmental fund statement can be found on pages 3 and 5 of this report.

Financial Analysis of the Authority as a Whole

The increase in the Authority's net assets is due to two primary factors:

1. Actual revenue for the fiscal year ended June 30, 2008 totaled \$1,684,851 which is an increase over prior year in the amount of \$180,451 or 12%.
2. Actual expenses totaled \$1,499,653 which is an increase over prior year in the amount of \$124,012 or 9.02%.

Marshall Area Fire Fighters Ambulance Authority

Managements Discussion and Analysis

Year Ended June 30, 2008

Financial Analysis of the Authority as a Whole (continued)

The following table shows, in a condensed format, the net assets of the Marshall Area Fire Fighters Ambulance Authority as of June 30, 2008.

TABLE 1 – Marshall Area Fire Fighters Ambulance Authority's Net Assets

	2007	2008
Assets		
Current assets	\$ 695,812	\$ 900,306
Non-current capital assets	<u>244,505</u>	<u>216,514</u>
Total Assets	<u>\$ 940,317</u>	<u>\$ 1,116,820</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities	\$ 53,731	\$ 57,817
Non-current liabilities	<u>31,875</u>	<u>19,094</u>
Total Liabilities	<u>\$ 85,606</u>	<u>\$ 76,911</u>
Net Assets		
Invested in capital assets – net of related debt	\$ 221,187	\$ 204,758
Unrestricted	<u>633,524</u>	<u>835,151</u>
Total Net Assets	<u>\$ 854,711</u>	<u>\$ 1,039,909</u>
Total Liabilities and Net Assets	<u>\$ 940,317</u>	<u>\$ 1,116,820</u>

The following is the government-wide results of operations for the fiscal year ended June 30, 2008:

The Authority's total revenues for the current year totaled \$1,684,851 that was comprised of (1) property taxes totaling 20.6%, (2) ambulance service charges totaling 75.3%, and other revenues (donations, interest, special events, etc.) of 4.1%. The total cost to provide ambulance services for the fiscal year ended June 30, 2008 was \$1,499,653. The Authority's operating costs are comprised of a variety of expenses. The primary cost incurred in providing ambulance services is in personnel salaries/wages and benefits that totaled \$1,018,024 or 67.9% of total expenses.

Marshall Area Fire Fighters Ambulance Authority

Managements Discussion and Analysis

Year Ended June 30, 2008

TABLE 2 – Changes in Marshall Area Fire Fighters Ambulance Authority's Net Assets

	2007	2008
Revenue		
Program Revenue		
Charges for services	\$ 1,111,870	\$ 1,269,514
General Revenue		
Property taxes	338,836	347,752
Interest	16,840	22,967
Donations	12,291	16,310
In-kind occupancy	18,600	18,600
Other	<u>5,963</u>	<u>9,708</u>
Total Revenue	<u>\$ 1,504,400</u>	<u>\$ 1,684,851</u>
Program Expenses		
Ambulance services	<u>\$ 1,375,641</u>	<u>\$ 1,499,653</u>
Change in Net Assets	<u>\$ 128,759</u>	<u>\$ 185,198</u>

Financial Analysis and Highlights of the Authority's Fund

The fund financial statements provide detailed information about the most significant funds, not the Authority as a whole. The Authority has only one fund that accounts for all of its operating and revenues and expenditures.

The operating fund revenue of \$1,684,851 exceeded fund expenditures and other financing uses, totaling \$1,484,087, by \$200,764. The Authority did not exceed its amended budget for fiscal year 2007/2008.

In fiscal year 2007/2008, the Authority recognized capital outlay expenditures totaling \$59,024 comprised of Board authorized disbursements to upgrade computer hardware and software totaling \$20,207, replacement of ambulance cots totaling \$29,733, and 800 MHz radio systems totaling \$9,084.

As of June 30, 2008, the Authority reported fund balance in the amount of \$854,245 representing approximately 57.5% of fund operating expenditures of which \$110,918 is designated towards 2008/2009 operations as approved in its budget.

Marshall Area Fire Fighters Ambulance Authority

Managements Discussion and Analysis

Year Ended June 30, 2008

Financial Analysis and Highlights of the Authority's Fund (continued)

The original budgeted revenues remained the same during the amendment process. Original budget expenditures of \$1,487,987 were amended to \$1,531,556. The more significant changes were made to increase Salary and wages by \$26,000, Fuel by \$15,000, Vehicle maintenance by \$20,000, and Bad debt expense by \$33,500. Decrease was made to Capital outlay by \$63,000.

Capital Asset and Debt Administration

At the end of fiscal year 2007/2008, the authority had \$216,514 (net of depreciation) invested in rescue, medical, and office equipment. Related to these assets is debt in the amount of \$11,756.

Economic Factors and Next Year's Budget and Rates

Property tax revenue is anticipated to increase at a rate of less than 1% for the 2008/2009 fiscal year. The anticipated millage rate for 2008 winter taxes is 0.4925 mills. The Authority's budget constitutes twelve months of operations for 2008/2009. The budget plans for capital expenditures for the purchase of a new ambulance in the amount of \$150,000. Fuel costs, employee health insurance, workers compensation are expected to be higher in the next year resulting from economic forces. Increase costs are also expected in medical supplies and vehicle maintenance. A decrease in the fund balance is expected to approximate \$110,918 for the fiscal year ending June 30, 2009. This is primarily due to the costs associated with the addition of an ambulance to the fleet.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements, please contact the Authority's Director at 323 W. Michigan Avenue, Marshall, Michigan, 49068.

BASIC FINANCIAL STATEMENTS
AND
NOTES TO FINANCIAL STATEMENTS

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30, 2008

ASSETS	GOVERNMENTAL ACTIVITY
Current Assets:	
Cash	\$ 753,245
Patient receivables - net of allowance for doubtful accounts and uncollectible insurance reimbursements in the amount of \$10,000 and \$73,000, respectively	114,958
Inventory	5,300
Prepaid insurance	<u>26,803</u>
Total Current Assets	<u>\$ 900,306</u>
Noncurrent Assets:	
Capital assets	\$ 434,866
Less: accumulated depreciation	<u>(218,352)</u>
Total Noncurrent Assets	<u>\$ 216,514</u>
TOTAL ASSETS	<u><u>\$ 1,116,820</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	\$ 1,345
Note payable	11,756
Accrued payroll liabilities	38,894
Deferred memberships	<u>5,822</u>
Total Current Liabilities	<u>\$ 57,817</u>
Noncurrent Liabilities:	
Compensated absences	\$ 11,853
Pension benefit obligation	<u>7,241</u>
Total Noncurrent Liabilities	<u>\$ 19,094</u>
TOTAL LIABILITIES	<u>\$ 76,911</u>
Net Assets:	
Invested in capital assets, net of related debt	\$ 204,758
Unrestricted	<u>835,151</u>
Total Net Assets	<u>\$ 1,039,909</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,116,820</u></u>

See accompanying notes to the basic financial statements.

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

		<u>PROGRAM REVENUES</u>	<u>GOVERNMENTAL ACTIVITIES</u>
	EXPENSES	CHARGES FOR SERVICES	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
GOVERNMENTAL ACTIVITIES			
General government	<u>\$ 1,499,653</u>	<u>\$ 1,269,514</u>	<u>\$ (230,139)</u>

GENERAL REVENUES	
Property taxes	\$ 347,752
Interest	22,967
Donations	16,310
In-kind occupancy	18,600
Other	<u>9,708</u>
TOTAL GENERAL REVENUES	<u>\$ 415,337</u>
CHANGE IN NET ASSETS	\$ 185,198
NET ASSETS - BEGINNING	<u>854,711</u>
NET ASSETS - ENDING	<u>\$ 1,039,909</u>

See accompanying notes to the basic financial statements.

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2008

ASSETS

Cash	\$ 753,245
Patient receivables - net of allowance for doubtful accounts and uncollectible insurance reimbursements in the amount of \$10,000 and \$73,000, respectively	114,958
Inventory	5,300
Prepaid insurance	<u>26,803</u>

TOTAL ASSETS

\$ 900,306

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$ 1,345
Accrued payroll liabilities	38,894
Deferred membership	<u>5,822</u>

Total Liabilities

\$ 46,061

Fund Balances:

Reserved:

Inventory	\$ 5,300
Prepaid expenses	26,803

Unreserved:

Designated for subsequent year budget	110,918
Undesignated	<u>711,224</u>

Total Fund Balances

\$ 854,245

TOTAL LIABILITIES AND FUND BALANCES

\$ 900,306

See accompanying notes to the basic financial statements.

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

JUNE 30, 2008

GOVERNMENTAL FUND BALANCES	\$ 854,245
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources, and
are not reported in the funds.

The cost of capital assets is	\$ 434,866	
Accumulated depreciation is	<u>(218,352)</u>	
		216,514

Debt related to capital acquisition are not reported in the funds.	(11,756)
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Non-current liabilities are not due and payable in the current period and are not reported in the funds.

Unfunded pension obligation	(7,241)	
Compensated absences	<u>(11,853)</u>	

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,039,909</u>
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See accompanying notes to the basic financial statements.

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
GOVERNMENTAL FUND

YEAR ENDED JUNE 30, 2008

REVENUES	
Taxes	\$ 347,752
Charges for services	1,269,514
Donations	16,310
Interest	22,967
In-kind occupancy	18,600
Other	9,708
	<hr/>
TOTAL REVENUES	\$ 1,684,851
EXPENDITURES	
Salaries and wages	\$ 722,719
Employee benefits	295,305
Office supplies	7,687
Medical supplies	24,586
Operating supplies	6,282
Fuel	49,831
Uniforms	7,619
Utilities	14,907
Professional services	20,296
Advertising	13,335
Repair and maintenance	48,927
Insurance	23,583
Licenses and permits	464
Dues and memberships	2,104
Bank fees	607
Education and training	5,525
Bad debt expense	150,537
In-kind occupancy	18,600
Capital outlay	59,024
	<hr/>
TOTAL EXPENDITURES	\$ 1,471,938
REVENUES OVER EXPENDITURES	<hr/> \$ 212,913
OTHER FINANCING SOURCES (USES)	
Payments on long-term debt	<hr/> \$ (12,149)
NET CHANGE IN FUND BALANCE	\$ 200,764
FUND BALANCE - BEGINNING	<hr/> 653,481
FUND BALANCE - ENDING	<hr/> <hr/> \$ 854,245

See accompanying notes to the basic financial statements.

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 200,764

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures and in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	\$ (81,388)	
Capital outlay	<u>53,397</u>	(27,991)

Repayment of notes payable obligations are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the governmental activity.	11,562
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In the statement of activities, compensated absences (Paid Time Off - PTO) are measured by the amounts earned during the year. Therefore, when PTO time is earned, it is recognized as expenditures in the statement of activities. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, PTO earned exceeds the amounts paid.	(1,635)
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Actuarial valuation of the pension benefit obligation that results in a decrease in the obligation is not recorded in the governmental funds, but is recorded in the governmental activities as a decrease in current year contributions to retirement.	<u>2,498</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 185,198</u>
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See accompanying notes to the basic financial statements.

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Marshall Area Fire Fighters Ambulance Authority conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

The Marshall Area Fire Fighters Ambulance Authority (the "Authority") was established under Act 57 of the State of Michigan Public Acts of 1988, on April 15, 2004, by the Townships of Burlington, Clarendon, Convis, Eckford, Fredonia, Lee, Marengo, Marshall, Tekonsha, and the City of Marshall, all of which are located in Calhoun County, Michigan. The Authority provides ambulance and rescue services to the citizens residing in those localities. Additionally, the Authority provides training and educational services. The Authority is supported through real estate taxes, reimbursements from insurance billing claims, service charges, donations, and service subscriptions to citizens.

The Authority is governed by a fourteen member Board of Directors comprised of members representing each municipality, three members from the Marshall Fire Fighters Association and one member from Oaklawn Hospital - Marshall, Michigan.

ECONOMIC DEPENDENCY

The Authority is economically dependent on real estate taxes collected from a .5 mill levied in the jurisdictions it services. The Authority would not be able to sustain operations absent the levy.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the activities of the Authority. All the Authority's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes charges to patients who use the services of the Authority. Taxes, intergovernmental payments, in-kind contributions, and other items not included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Authority only has one governmental fund, its operating fund.

Government-Wide Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. When expenses are incurred for purposes for which both restricted and unrestricted net assets are available, restricted net assets are used prior to unrestricted net assets. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenue to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include patient billing revenues reported as charges for services. All other revenue items are considered to be available only when cash is received by the Authority.

The Authority accounts for all of its activity in only one governmental fund, a *Special Revenue Fund*. Since the Authority is not self-sustaining and because it receives real estate taxes that are legally restricted for the use of the specific purpose carried out by the Authority, governmental accounting standards require that such activity be accounted for in a special revenue fund.

BANK DEPOSITS

The Authority maintains a checking, savings, and certificate of deposit accounts with three financial institutions that are comprised of cash deposits only.

INVENTORY

Inventory consists of medical supplies and is valued at cost using the FIFO (first-in, first-out) method.

Generally accepted accounting principles require that inventory be reported at cost. Management has elected to value inventory using the average cost method. The difference between the Authority's inventory valued at average cost and cost was not determined at June 30, 2008. However, because of the small dollar amount and high turnover of inventory, management does not expect the difference in methods to result in a material difference in valuation.

CAPITAL ASSETS

Capital assets that include office and medical equipment and rescue vehicles are reported in the government-wide financial statements. The Authority defines capital assets as those with an initial individual cost of more than \$2,000 and an estimated useful life in excess of 1 year. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend the life of an asset are not capitalized but rather expensed in the period incurred. Depreciation expense is reported in general government expense on the statement of activities.

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS (CONCLUDED)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	YEARS
Equipment	3 - 7
Rescue vehicles	5

ACCOUNTS RECEIVABLE

The Authority uses the allowance method for valuing potentially delinquent accounts. The allowance is estimated based upon a review of outstanding receivables, historical collection information, billings, and existing economic conditions. Past due accounts greater than ninety days are considered delinquent and are reserved for in the allowance for doubtful accounts at June 30, 2008.

NET PATIENT SERVICE REVENUE

The Authority has agreements with third-party payers that provide payments to the Authority at amounts different from its established service rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered.

CONTRIBUTIONS

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or for a specific purpose by the donor are reported as restricted net assets. However, donor restricted contributions whose restrictions are met in the same accounting period are reported as unrestricted support. At June 30, 2008, the Authority did not have any restricted net assets.

Generally accepted accounting principles require that in-kind occupancy be recognized as contribution revenue in the period in which the contribution is received and expensed in the period the occupancy was used. Management has recognized the fair value of in-kind occupancy in its financial statements at June 30, 2008 in the amount of \$18,600.

PROPERTY TAX

Current property taxes are collected by various taxing entities and remitted to the Authority. Properties are assessed as of December 31, and the related property taxes are levied and become payable on July 1 of the following year for summer taxes and December 1 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 14, respectively. The due date for property tax collections is February 14, after which time property tax bills become delinquent and are turned over to the respective county. Delinquent personal taxes are remitted to the Authority by the various taxing entities when the taxes are collected. Due to the uncertainty of when and if delinquent personal property taxes will be collected, the Authority does not accrue personal property tax revenue at the end of its fiscal year.

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPENSATED ABSENCES

Full time employees are eligible to earn personal time off (PTO) upon completing a ninety day probationary period. PTO encompasses a variety of traditional leave time such as vacation, personal days, sick leave, military leave, birthday, and bereavement.

The rate of PTO earned is based on minutes for hours worked and increases with years of service. There is no limit on the amount of PTO that an employee can accumulate. However, an employee who resigns or retires from the Authority will be compensated for their accumulated PTO up to the maximum of 192 hours. For every five hours of earned PTO time accumulated, the employee will be compensated for one hour at their regular hourly rate at the time of separation. An employee who is terminated by the Authority is not entitled to payment for accumulated and unused PTO hours.

At June 30, 2008 employees accumulated unpaid PTO totaled \$11,853.

LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations are reported as liabilities in the government-wide statement of net assets. The face amount of issued debt is reported as other financing sources in the fund statement of revenues, expenditures and changes in fund balance.

FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

BUDGETS AND BUDGETARY ACCOUNTING

The Authority's budgetary procedures in establishing budgetary data reflected in the financial statements are as follows:

1. The Authority's Director submits to the Authority Board a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is enacted through the passage of a resolution.

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

BUDGETS AND BUDGETARY ACCOUNTING (CONCLUDED)

4. Formal budgetary integration is employed as a management control device during the year.
5. The budget is adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results and consist only of those amounts contained in the formal budget approved or as amended by the Authority Board. The Authority's budget is adopted on a fund basis.
6. Any excess amount budgeted for expenditures are covered by a carryover in fund balance from previous years.
7. Budgeted revenues and expenditures are presented in the statement of revenues, expenditures and changes in fund balances - budget and actual - governmental fund, including any authorized amendments to the original budget as adopted.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30, and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2008.

NOTE 2: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

At year end, cash was comprised of the following:

Cash (checking, savings and certificate of deposit)	\$	753,045
Petty cash		<u>200</u>
Total	\$	<u>753,245</u>

The Authority deposits money with three financial institutions. The Authority's total bank deposits are \$766,296, of which \$351,736 is covered by federal depository insurance; the remaining balance is uninsured and uncollateralized.

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 3: CAPITAL ASSETS

Capital asset activity of the Authority for the year was as follows:

	BALANCE JULY 1, 2007	ADDITIONS	DISPOSALS	BALANCE JUNE 30, 2008
Capital assets being depreciated:				
Medical equipment	\$ 57,091	\$ 38,817	\$	\$ 95,908
Rescue vehicles	257,023			257,023
Office equipment and furnishings	<u>67,355</u>	<u>14,580</u>	<u></u>	<u>81,935</u>
Subtotal	<u>\$ 381,469</u>	<u>\$ 53,397</u>	<u>\$</u>	<u>\$ 434,866</u>
Accumulated depreciation:				
Medical equipment	\$ 14,773	\$ 13,781	\$	\$ 28,554
Rescue vehicles	109,234	51,404		160,638
Office equipment and furnishings	<u>12,957</u>	<u>16,203</u>	<u></u>	<u>29,160</u>
Subtotal	<u>\$ 136,964</u>	<u>\$ 81,388</u>	<u>\$</u>	<u>\$ 218,352</u>
Net Capital Assets	<u>\$ 244,505</u>	<u>\$ (27,991)</u>	<u>\$</u>	<u>\$ 216,514</u>

NOTE 4: DEBT

Debt at June 30, 2008 consisted of the following:

Note payable – City of Marshall – the City obtained financing from a local financial institution for the purchase of an ambulance on behalf of the Authority. Both the City and the financial institution jointly hold title to the ambulance as secured lien holders. The note is payable in monthly installments of \$1,012 to the City, with interest at a rate of 3.98%, through June 1, 2009.

\$ 11,756

The following is a summary of changes in debt:

	BALANCE JULY 1, 2007	ADDITIONS	REDUCTIONS	BALANCE JUNE 30, 2008
City of Marshall	<u>\$ 23,318</u>	<u>\$</u>	<u>\$ 11,562</u>	<u>\$ 11,756</u>

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 4: DEBT (CONCLUDED)

The following is a schedule of principal and interest maturities:

	PRINCIPAL	INTEREST	TOTAL
2009	\$ 11,756	\$ 393	\$ 12,149

During the year ended June 30, 2008, the Authority incurred interest expense on outstanding debt in the amount of \$587.

NOTE 5: DEFINED BENEFIT PENSION PLAN

Plan Description

The Authority participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple employer plan administered by the Retirement Board of MERS. The Plan provides retirement and disability benefits, annual cost of living adjustments and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

Funding Policy

The Authority's annual contribution requirement is 4.09% and 4.22% of participating employee's covered payroll effective July 1, 2009 and 2008, respectively. Authority's participating employees are required to contribute 6.84% of their annual covered payroll. These contribution percentages are based on the actuarial valuation date as of December 31, 2007. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Authority depending on the MERS contribution program adopted by the Authority.

Funding Progress

The required contribution was determined as part of the December 31, 2007 actuarial valuation using the entry age normal actuarial method. The significant actuarial assumptions used include (a) a rate of return of the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to longevity and merit.

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

JUNE 30, 2008

NOTE 5: DEFINED BENEFIT PENSION PLAN (CONCLUDED)

Information related to funding of the pension benefit obligation as of the December 31, 2007 actuarial valuation is as follows:

Pension Benefit Obligation

Actuarial Accrued Liability:	
Non-vested terminated employees	\$ 4,979
Current employees –	
Accumulated employee contributions	63,340
including allocated investment income	52,287
Employer financed	<u>52,287</u>
Total Actuarial Accrued Liability (AAL)	\$ 120,606
Net assets available for benefits at actuarial value (market value is \$114,687)	<u>113,365</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 7,241</u>

The actuarial value of MERS assets was determined on the basis of a method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2007 was 28 years.

Trend Information

YEAR ENDED JUNE 30,	PENSION COST (APC)	PERCENTAGE CONTRIBUTED	NET PENSION OBLIGATION
2006	\$ 14,009	94.67%	\$ 749
2007	14,473	61.83%	9,739
2008	14,877	100.00%	7,241

The required supplementary information (see table of contents) contained in the additional information is designed to provide information about the plan's progress in accumulating sufficient assets to pay benefits when due.

NOTE 6: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, unemployment benefits, as well as medical and workmen's compensation benefits provided to employees. The Authority has purchased commercial insurance for general liability on buildings occupied, equipment damage and theft, employee theft, and limited tort claims.

In addition to carrying commercial insurance, the Authority participates in the Michigan Association of Ambulance Services (MAAS), Self-Insured Workers' Compensation Fund (the "Fund") for workers compensation. The Fund was established pursuant to the provisions of Act 45 of Michigan Public Acts of 1974. Premiums for coverage secured by the Authority are determined in accordance with rating guidelines, which provide funds sufficient to secure specific and aggregate reinsurance.

At June 30, 2008, there were no claims which exceeded insurance coverage, nor have any settled claims during the year exceeded insurance coverage. The Authority did not have any significant reduction in insurance coverage during the year.

REQUIRED SUPPLEMENTAL INFORMATION

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 320,000	\$ 320,000	\$ 347,752
Charges for services	1,033,001	1,033,001	1,269,514
Donations	10,000	10,000	16,310
Interest	5,000	5,000	22,967
In-kind occupancy			18,600
Other	8,000	8,000	9,708
TOTAL REVENUES	<u>\$ 1,376,001</u>	<u>\$ 1,376,001</u>	<u>\$ 1,684,851</u>
EXPENDITURES			
Salaries and wages	\$ 711,025	\$ 737,000	\$ 722,719
Employee benefits	313,012	317,006	295,305
Office supplies	8,500	8,500	7,687
Medical supplies	19,000	28,000	24,586
Operating supplies	7,000	7,000	6,282
Fuel	35,000	50,000	49,831
Uniforms	7,500	9,000	7,619
Utilities	15,500	15,500	14,907
Professional services	23,500	23,600	20,296
Advertising	3,500	8,700	13,335
Repair and maintenance	30,000	50,000	48,927
Insurance	27,500	23,600	23,583
Licenses and permits	750	750	464
Dues and memberships	2,000	2,200	2,104
Bank fees		1,000	607
Education and training	12,000	6,000	5,525
Bad debt expense	135,000	169,500	150,537
In-kind occupancy			18,600
Capital outlay	125,000	62,000	59,024
TOTAL EXPENDITURES	<u>\$ 1,475,787</u>	<u>\$ 1,519,356</u>	<u>\$ 1,471,938</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (99,786)</u>	<u>\$ (143,355)</u>	<u>\$ 212,913</u>
OTHER FINANCING (USES)			
Payments on long-term debt	<u>\$ (12,200)</u>	<u>\$ (12,200)</u>	<u>\$ (12,149)</u>
NET CHANGE IN FUND BALANCE	\$ (111,986)	\$ (155,555)	\$ 200,764
FUND BALANCE - BEGINNING	<u>653,481</u>	<u>653,481</u>	<u>653,481</u>
FUND BALANCE - ENDING	<u>\$ 541,495</u>	<u>\$ 497,926</u>	<u>\$ 854,245</u>

MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION
RETIREMENT SYSTEM REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS
MICHIGAN MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

JUNE 30, 2008

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	(a) ACTUARIAL VALUE OF ASSETS	(b) ACTUARIAL ACCRUED LIABILITY (AAL) ENTRY AGE	(b-a) UNFUNDED AAL (UAAL)	FUNDED RATIO TOTAL	(c) COVERED PAYROLL	((b-a)/c) UAAL AS A PERCENTAGE OF COVERED PAYROLL
12/31/05	\$21,448	\$22,197	\$ 749	97%	\$402,450	0.2%
12/31/06	68,980	78,719	9,739	88	487,797	2
12/31/07	113,365	120,606	7,241	94	437,902	2

Analysis of the dollar amounts of net assets available for benefits, actuarial accrued liability (AAL) and unfunded "AAL" in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the "AAL" provides one indication of the retirement system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded "AAL" and annual covered payroll are both affected by inflation. Expressing the unfunded "AAL" as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the retirement system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

OTHER REPORTS



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MARSHALL AREA FIRE FIGHTERS AMBULANCE AUTHORITY

GAO GOVERNMENT AUDITING STANDARDS REPORT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Authority Board
Marshall Area Fire Fighters Ambulance Authority
Marshall, Michigan

We have audited the financial statements of the governmental activity and major fund of Marshall Area Fire Fighters Ambulance Authority, as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated August 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marshall Area Fire Fighters Ambulance Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marshall Area Fire Fighters Ambulance Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management and the Board of the Authority in a separate letter dated August 6, 2008.

This report is intended for the information of the Authority Board, management, and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

Delancey, Marsh, Condon & Co., P.C.

Certified Public Accountants

Hillsdale, Michigan
August 6, 2008



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

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August 6, 2008

Marshall Area Fire Fighters Ambulance Authority
323 West Michigan Ave.
Marshall, Michigan 49068

In planning and performing our audit of the financial statements of Marshall Area Fire Fighters Ambulance Authority for the year ended June 30, 2008, we considered the Authority's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 6, 2008, on the financial statements of Marshall Area Fire Fighters Ambulance Authority.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the Authority's management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

MEMORANDUM

PAYROLL

Of all the disbursements that are processed through the Authority's accounting system the Director's salary is one that is not monitored by someone independent of the Director or by the Board. Unlike all other employees pay, which is monitored by the Director, the Director's pay goes undetected by anyone and is accumulated in total gross wage expense that is reported in the Authority's monthly financial statements.

Under the existing practice the *opportunity* exists for the Director to have the payroll service issue him a paycheck in an amount greater than what the Board has approved for his salary. We are not suggesting that the Director is of character to do this nor did our audit uncover evidence that this is occurring.

The cause of this condition is due to a weakness in the design of internal control over the bi-weekly pay of the Director's salary. The design in controls needs to be modified to remove that *opportunity* for such an act to occur regardless of the individual that is in the Director's position.

We recommend the Board do one of two things, or both; (1) require the Director to create a new line item in the general ledger and the financial statements that reports the Director's gross salary separate from other gross wages and/or (2) review and approve a monthly payroll check register.

In review of this matter with both management and the Board Treasurer it was agreed that formal changes are necessary to mitigate the risk identified with either one of the recommended controls. The board will review the matter with management and take corrective actions.

FINANCIAL REPORTING

All Michigan municipalities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the municipalities' management. The preparation of financial statements in accordance with GAAP requires internal controls over reporting government-wide and fund financial statements, including the related footnotes; i.e., external financial reporting.

As is the case with many small municipalities, the Authority has historically relied on its independent external auditors to assist in the preparation of the government-wide and fund financial statements and footnotes as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Authority's internal controls.

This condition was caused by the Authority's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Authority to perform this task internally.

As a result of this condition, the Authority lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The Authority has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Authority to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.